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BUSINESS & FINANCE 19

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On the last day of a last-minute rush of campaigning, Gordon Brown made his way north so that he could be in Scotland at his constituency.

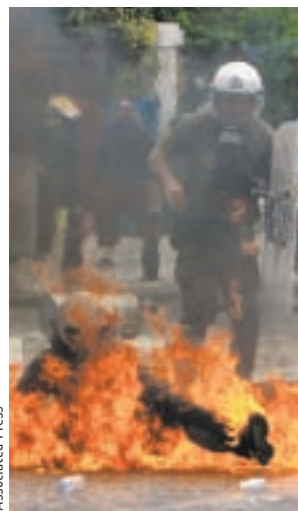
Mass strike, fatal fire bring Greece to halt

BY ALKMAN GRANITSAS
AND SEBASTIAN MOFFETT

ATHENS—A nationwide general strike paralyzed Greece on Wednesday as protests against the government's recently announced austerity measures turned violent, with an apparent firebomb attack on a central Athens bank killing three people.

Wednesday's strike is seen as a key test of the government's ability to shepherd through tough austerity measures in exchange for a €110 billion (\$143 billion) bailout loan from the European Union and the International Monetary Fund.

The 24-hour strike coincided with protests that brought out tens of thousands of Greeks, one of the country's largest protests in years. Angry youths rampaged through the center of Athens, torching several businesses and smashing shop windows.



A firebomb hits a policeman.

Greek Prime Minister George Papandreou condemned the violence. "Everyone has the right to protest," he said in a statement to parliament. "But no one has the right to violence and especially violence that leads to

the death of our compatriots." While union leaders called for a cancellation of an austerity package expected to be passed by Greece's parliament on Thursday, others were resigned to the cuts but said they were angry over years of mismanagement and government corruption that led to the current crisis.

"For 30 years the Greek people have been held hostage," said Perianthos Athanassakis, 48, a garbage collector in Piraeus, the port near Athens. "Those who stole the money should pay."

Wednesday's casualties came after hooded protesters smashed the front window of Marfin Bank in central Athens and hurled a Molotov cocktail inside, witnesses said. The three died from asphyxiation from the smoke, according to the Athens coroner's office.

Four others were seriously injured there, fire department officials said. *Please turn to page 7*

Huge deficit awaits U.K. victor

A Wall Street Journal Roundup

LONDON—The U.K.'s parties went into their final day before the election Wednesday with a stark reminder of the fiscal challenge facing the winner.

The European Commission said the U.K. government will have to borrow more than it expects in the current financial year and in calendar 2010 will have the largest budget deficit in the European Union. Despite raising its 2010 and 2011 growth forecasts for the U.K. economy, the commission still expects the budget deficit to be larger than forecast in the March 24 budget. Then, the government said it would borrow 11.1% of gross domestic product in the fiscal year ending March 2011, and 8.5% of GDP in the fiscal year ending March 2012.

The size of the U.K.'s pub-



U.K. Election 2010
WSJ.com/UK Election

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lic-sector deficit has been the central issue of a tight election campaign, with the government arguing spending cuts this year would imperil the fragile economic recovery, and the opposition Conservative Party claiming that a delay in cutting borrowing will push long-term interest rates up and choke off growth.

"Restoring the U.K. public

finances is a central task, as they have been greatly weakened, by a combination of the severe downturn, its impact on previously tax-rich income and expenditure, the operation of automatic stabilizers and the fiscal stimulus," the commission said.

A ComRes poll for ITV News and the Independent newspaper on Wednesday showed that a third of people say they may change their minds about how they will vote Thursday, with Liberal Democrat supporters the most likely to switch. Some Labour officials had suggested their supporters vote for the Liberal Democrats in seats where Labour is running third, to stop the Conservatives. Vince Cable, finance spokesman for the Liberal Democrats, rejected such calls saying the Labour Party was acting on a "sense of desperation."

The Big Read



Show stopper: How plastic popped the cork monopoly. The Big Read. Pages 16-17

World Watch

A comprehensive roundup of news from around the world. Pages 34-35

Editorial & Opinion

How the British elections are like a goldfish. Page 15

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PAGE TWO

Too late to change your minds, gents

[Agenda]

BY PATIENCE WHEATCROFT



It was a little late for any of the three candidates to be Britain's next prime minister to have second thoughts about whether they really wanted the role. Nevertheless, the job description, as amended Wednesday by the European Commission, sounds far from enticing.

"This is an opportunity to take over running the biggest deficit in any of the 27 countries of the European Union," was the message from Brussels, released just a day before the vote.

Olli Rehn, the EU commissioner for Economic and Monetary Affairs, rammed home the challenge for a prime minister inheriting a deficit forecast to hit 12% of GDP this year. "The first thing for the new government to do is to agree on a convincing, ambitious program of fiscal consolidation," he said.

Mr. Rehn would clearly have the next leader drawing up a program of spending cuts and tax increases long before the new curtains have been hung at Number 10 Downing Street. His belief that there must be immediate, and radical, action is shared by the markets, hence their nervousness at the prospect of a hung Parliament, which, they fear, would result in too little being done, and too late.

Current Prime Minister Gordon Brown continues to argue that the recovery in Britain is still too fragile to risk jeopardizing it with major spending cuts. That stance has left Britain facing a deficit that will be larger than that of Greece at the end of this year.

For the time being, fallout from Greece's crisis is spreading within the euro zone. But, as Mr. Rehn said, the bush fire in Greece could "become a forest fire and a threat to financial stability for the European Union and its economy



EU Economic and Monetary Affairs Commissioner Olli Rehn, on Wednesday.

as a whole." If the markets interpret the results of Thursday's U.K. election as meaning there won't be concerted action to bring the country's finances under control, then that forest fire will sweep across the U.K.

Almost as Mr. Rehn was speaking, a real fire was causing the first fatalities of the public protests in Greece. The prime minister, George Papandreou,

Brown has left the U.K. facing a deficit that will be larger than that of Greece by the end of the year.

condemned the violence and tried to quell the anger over cuts to pensions and salaries that has driven people to strike and demonstrate. "We have compassion for every family who has seen their plans for the future slip seemingly further away," he said. "But we took these measures to secure a future which might not exist otherwise."

What his speech didn't mention was that there will be more pain to come. Germany's Chancellor Angela Merkel has made it clear that she takes seriously the threat that Greece's bailout package will be withdrawn if the government fails to deliver the economic reforms it has

promised. Given the increased interest bill it is now faced with from the bailout, that can only mean more cuts. Yet there have to be real doubts about the ability of Mr. Papandreou, or any other leader to deliver what is required. Which is why a Greek default looks inevitable.

There is a Catch-22 that hits indebted countries just as it does households. The higher the borrowings and the more urgent the need of more borrowing to service the debt, then the higher the price of the new debt becomes.

This is where the ratings agencies wield such huge power. Despite their abject failings in rating as Triple A some of the riskier instruments created by the investment banking boffins, their verdict continues to dictate the way that debt is priced. Downgrades of Spain and Portugal have already taken their toll but the U.K. has held on to its Triple-A rating, so far. The agencies will be reviewing that verdict once the election results are clear. Should they decide to drop a notch, the additional borrowing cost would be measured in billions. After all, the nation's debt is set to reach £1.4 trillion (\$2.1 trillion) by 2014-15.

That was the figure in Chancellor Alistair Darling's most recent, and almost certainly last, budget. But Wednesday's EU forecast for the British economy

suggests that there was room for doubt over the budget sums. "The government's plans for non-cyclical primary expenditure in 2011-12 ... are not yet backed by detailed departmental spending limits," it says.

In other words, the government budgeted for cuts without saying where they would fall. The first part is easy; it is the second that is harder. With an election just weeks away, however, the Labour government decided it was wise not to be too specific.

The EU forecast also indicates some nervousness over the eventual cost of Gordon Brown's bank bailout. "Government financial sector interventions undertaken during the crisis have generated large contingent liabilities," it states.

The fact is that, for a man who for years as chancellor boasted of his "prudence," Mr. Brown has, both at the Treasury and then in Downing Street, taken Britain's finances to precarious levels. On Thursday, the public will pass its judgment on his reign.

The result seems very likely to mean that there will be someone different in charge of running Britain. The task he faces is not enviable. Success will be possible only if he takes the advice of Mr. Rehn and acts swiftly. Cutting back generous public-sector pensions will have to be high on the agenda as will a massive scaling back of public-sector employment.

And while a low-tax economy is, in the end, the most prosperous one, a short-term need for cash will mean that more revenue has to be found. An increase in VAT is the neatest one.

Mr. Darling cut VAT to 15% in an attempt to stimulate the economy. The move cost £12.5 billion and it is debatable whether it did much to encourage spending that would not otherwise have taken place. The rate rose back to 17.5% in January, without any obvious hit on retailers. It could, and probably will, go higher.

Britain, like Greece, has bills to be paid.

What's News

■ **Prudential's \$35.5 billion** takeover of AIG's Asian insurance operations hit a snag when U.K. regulators asked for more information, delaying a crucial rights offering and sparking doubts about the deal. 19, 36

■ **Spanish Premier Zapatero** forged an agreement with an opposition leader to clean up shaky savings banks that control half of the nation's lending and deposits, in a reaction to the financial crisis. 6

■ **Société Générale swung** back into the black in the first quarter, posting a net profit as write-downs from risky assets receded. 19

■ **Switzerland's ABB agreed** to buy software maker Ventyx from U.S. private-equity firm Vista Equity Partners for more than \$1 billion. 20

■ **Volcanic ash drifting** from an Icelandic volcano caused more disruption, forcing the closure of airspace over parts of the U.K. and Ireland. 8

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The Source

blogs.wsj.com/source

"Markets had been baying for a bailout for months. Now they've got one they are still not happy."

David Cottle on global stock markets' reaction to the bailout for Greece



Continuing coverage



Get live updates, analysis and market reaction as U.K. voters go to the polls at wsj.com/ukelection

Question of the day

Vote and discuss: Does the Greece aid avert a broader crisis in Europe?

Vote online at wsj.com/dailyquestion

Previous results

Q: Who would you vote for in the U.K. election?

Conservatives

55%

Labour

7%

Liberal Democrats

28%

Other

10%

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NEWS

Picasso sets record

Portrait of artist's mistress sells for \$106.5 million at auction

BY KELLY CROW

Pablo Picasso is, once again, the world's most expensive artist at auction. A 1932 portrait of the Spanish painter's blonde mistress, "Nude, Green Leaves and Bust," sold for \$106.5 million to an anonymous buyer at Christie's in New York on Tuesday—the most ever paid for a work of art at auction.

The price tag surpasses the \$104.3 million spent three months ago for an Alberto Giacometti sculpture, "Walking Man I," as well as Picasso's 2004 record of \$104.1 million for his 1905 work, "Boy With a Pipe."

In a dogged contest at the auction house's Rockefeller Center salesroom, the bidding for Picasso's "Nude" began at \$58 million and shot up quickly, with eight bidders competing for the jewel-toned, five-by-four-foot painting. Christie's specialist Nicholas Hall, who often advises collectors of Old Master paintings, fielded the winning bid from the unknown buyer over a telephone. The work had been priced to sell for \$70 million to \$90 million.

One dealer, Daniella Luxembourg, said she was surprised the painting

sold for more than \$70 million, but added the purchase reflected the market's volatile mood: "This is a fantastic picture, but the market also wants trophies right now," she said.

The Picasso anchored Christie's \$335.5 million evening sale of Impressionist and modern art, a total that fell near the high end of its pre-sale estimate of between \$262.7 million and \$368.3 million and more than tripled the total for its evening sale in May 2009.

The sale also kicked off a two-week round of New York auctions of Impressionist, modern and contemporary art that could set price levels and determine tastes for dozens of the world's top artists. The chief houses, Sotheby's and Christie's, expect to sell at least \$803 million in Impressionist art between now and May 13, twice as much as they sold in May 2009 but still off their \$1.4 billion 2008 total during the market's peak. Sale prices include the auction house's commission, while estimate prices omit it.

After a year of sobriety amid the recession, the art market's titans are again chasing trophy paintings with a fresh tenacity, pushing up prices for a handful of coveted master-

works yet allowing lower-profile works to go unsold. The record-setting Picasso was considered a plum in part because it comes from the same 1932 series as "The Dream," another sensuous portrait of Marie-Thérèse Walter that casino owner Steve Wynn nabbed for \$48 million at Christie's in 1997. Four years ago Mr. Wynn had to repair that work after accidentally poking his elbow through it.

"Nude, Green Leaves and Bust" carries its own mystique, having come from the estate of Frances Brody, a Los Angeles-based collector who filled her midcentury Modernist home with masterworks that she rarely lent to museums or showed to the public. She and her late husband, Sidney Brody, bought the painting in 1951 and exhibited it only once in the U.S., in 1961, to commemorate the artist's 80th birthday. The Brodys were so fond of the work that they refused to let curators or photographers take color photos of it, the auction house said.

The work itself depicts a peach-skinned nude woman lying on a sofa behind a navy curtain. Staring down at her behind a stony Greek bust is



Picasso painted 'Nude, Green Leaves and Bust,' a portrait of his mistress Marie-Thérèse Walter, in 1932.

the shadowy outline of a man's profile that experts say is the artist's doppelganger. Ms. Walter was a new flame for the married artist at the time.

Collectors haven't given up on Giacometti, though. The lingering buzz over the Swiss-Italian sculptor's skyrocketing prices may have helped his offerings this time around. Private New York dealer Guy Bennett paid Christie's \$53.2 million for Giacometti's 1955 "Big Thin Head," a bust of his brother Diego—well over its \$35 million high estimate. The artist's wire-like bronze of an amputated arm, "The Hand," also sold to a telephone bidder for \$25.8 million, nearly twice its high estimate.

The buyer of the Picasso also set a record by paying \$10.1 million—double its high estimate—for Georges Braque's 1953-54 window scene of a Marseilles neighborhood, "La Treille."

Elsewhere in the sale, the Fine

Arts Museums of San Francisco paid \$2.9 million for Jean-Francois Raffaelli's "Absinthe Drinkers."

Not everything sold for record prices, however. Edvard Munch's "Fertility," which had been priced to sell for at least \$25 million, garnered no bids and went unsold. Henri Matisse's 1924 "Nude on a Blue Cushion" sold to an Asian telephone bidder for \$15 million—below its \$20 million low estimate.

Overall, 56 of the 69 works on offer Tuesday evening found buyers, helping the sale achieve 86% of its potential value. The 27 works from the Brody collection brought in \$224.1 million, the highest-ever U.S. total for a single-owner sale at Christie's, the auction house said.

Christie's won the Brody collection in part by offering the estate a guarantee—a financial mechanism that allowed the auction house to pledge the estate an undisclosed sum for the works whether or not they sold.

Record setters | Next-highest sales of art at auction

'Walking Man I'
Alberto Giacometti
\$104.3 million
2010



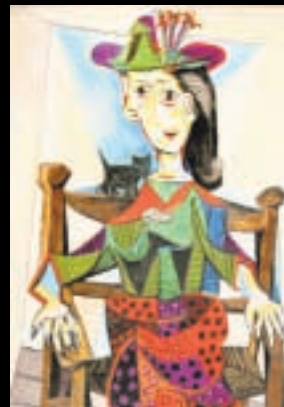
Getty Images

'Boy With Pipe'
Pablo Picasso
\$104.1 million
2004



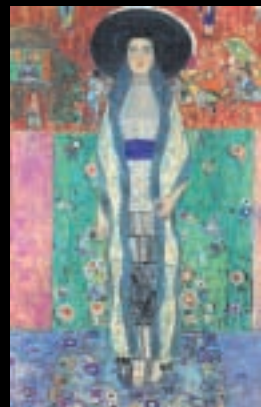
Associated Press

'Dora Maar with Cat'
Pablo Picasso
\$95.2 million
2006



Getty Images

'Adele Bloch Bauer II'
Gustav Klimt
\$87.9 million
2006



Getty Images

...And a Bugatti drives car collectors into top ranks

BY DAN NEIL

Some time last week, the estate of Peter D. Williamson sold the late car collector's prized 1936 Bugatti 57SC Atlantic to the Mullin Automotive Museum in Oxnard, Calif., for between \$30 million and \$40 million, according to a person familiar with the transaction. Any figure in that range would make the Williamson Atlantic—a heartbreaking piece of European automotive sculpture considered to be the epitome of French-Deco styling—the most valuable car known to have changed hands.

The most valuable car ever sold at a public auction was a 1957 Ferrari 250 Testa Rossa, which sold for \$12.2 million in May 2009.

The Bugatti sale was brokered by Gooding & Co., the automotive auction house based in Santa Monica, Calif., and has reportedly been in the works for some time. It isn't unusual for such transactions to remain private because both buyers

and sellers typically like to remain anonymous. However, the auto-collector world knew that after Dr. Williamson's death in 2008 it was only a matter of time before the car—widely acknowledged to be the most desirable classic automobile in the world—would be sold.

"I am extremely pleased to have found the new buyer for the 1936 Bugatti Type 57SC Atlantic, one of the world's most significant and valuable automobiles that has been in a private collection and rarely seen during the past four decades," David Gooding, president and founder of Gooding & Co., said in a statement. "It has been a great pleasure to work with the Williamson Family and Trust in this important endeavor." Gooding declined to confirm the identity of the buyer or the price.

Dr. Williamson, a noted neurologist and epilepsy expert, amassed a spectacular collection of Bugattis—built in France, between the wars—near his home in Lyme, N.H.

Many of his cars were auctioned by Gooding in Pebble Beach, Calif., during the annual car collector classic weekend in August 2008. However, the total from those sales—some \$15.5 million—was half, or less, than the Atlantic's price.

"This car has everything going for it," said Leslie Kendall, curator of the Petersen Automotive Museum in Los Angeles. "It embodies every ideal important to car aficionados," he added. "It's beautiful, performs well, beautifully built and rare."

The 57SC Atlantic was based on the Aerolithe Electron Coupe, a show car built for the 1935 Paris Auto Salon. The car was fashioned out of magnesium panels that were difficult to weld, so Bugatti employed the car's distinctive riveted seams. While the three production Atlantics were built of weldable aluminum, the seams were retained as a design cue.

Two completely original Atlantics survive: the Williamson car and another owned by designer Ralph



The 1936 Bugatti 57SC Atlantic.

Lauren.

The Atlantic's price is, of course, staggering, even to automotive historians and experts.

"Now, it's official, certain cars have reached the level of art," said

Mr. Kendall. "People will start paying attention. It's should be obvious that there are connoisseurs out there who appreciate cars just as much as they do art, fine wine, furniture and sculpture."

BRITISH ELECTIONS

Brown runs—and runs—to finish line

Prime minister makes a peripatetic push in final bid to keep job; courting reporters, and one NHS worker, on the train

BY ALISTAIR MACDONALD
AND JOE PARKINSON

MANCHESTER, England—The final days of Gordon Brown's uphill bid to remain Britain's prime minister have been much like his rocky almost three-year run in the job: rough around the edges, perpetually under siege and yet, improbably, still not quite dead.

Never a natural campaigner, the 59-year-old Mr. Brown dashed, sometimes awkwardly, around the U.K. in recent days, barrelling toward today's election, in which he trails the opposition Conservative Party and its leader, David Cameron. Mr. Brown's battle to hang on comes after a short stint as prime minister in which his Labour Party, after 13 years in office, has often been riddled by scandal and infighting.

Things took a turn for the worse last week, when a live microphone caught Mr. Brown calling a voter he had met "bigoted." Since then, his campaign sometimes seemed snake-bitten as it dodged hecklers and a drumbeat of questions about life after No. 10 Downing Street.

On Saturday, for example, Mr. Brown was rallying a group of Labour supporters at the National Glass Centre in the city of Sunderland when he was drowned out by a man shouting, "Mr. Brown, it's all over! We're broke!" The event screeched to a halt as the protester, Julian Borthwick, was wrestled out of the room, and later said he was inspired by Gillian Duffy—the 65-year-old woman Mr. Brown had called bigoted.

But even amid the mishaps, Mr. Brown has soldiered on, and in recent days some polls suggested that Labour—which at times has seemed headed for an embarrassing third-place finish in the popular vote—had



Prime Minister Gordon Brown speaks to students and supporters at Bradford University in northern England Wednesday.

regained some steam. Despite appearing haggard at times, Mr. Brown delivered speeches that found a valedictory tone, picked up by Labour loyalists. His final campaign visits have focused on mobilizing Labour's core vote rather than seducing the swing voters that pollsters have long said would be necessary to secure a governing majority.

Mr. Brown's race to the finish line began on a train to Newcastle Saturday, when a 31-year-old physiotherapist, Orla Cunningham, somehow found herself wedged between her country's prime minister, powerful U.K. business chief Peter Mandelson and a hungry pack of reporters.

"Who are you with?" Lord Mandelson asked, wondering which pa-

per she wrote for. "The NHS," she replied, referring to the National Health Service.

Ms. Cunningham, who voted Labour in the previous election, eavesdropped on the prime minister's pitch to reporters, yet remained unconvicted. "People are looking for something new," she said once Mr. Brown had disappeared back among

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his security guards and advisers.

By Tuesday morning, Mr. Brown gave a strongest hint that he wouldn't stay on as Labour leader if the party failed to win the election.

"I'll have to take responsibility," he told the morning show GMTV.

On the campaign trail, however, Mr. Brown was still showing the never-say-die qualities that earned him the nickname "The Gordonator" during a long run as a tough political operative.

On Wednesday, the campaign headed north, aiming for Scotland. His plan was to stay there for much of Election Day before heading back to London, where as early as Friday morning he will either be packing his bags or settling in again.

Uphill battle for the smaller U.K. parties

BY TOMMY STUBBINGTON

Nigel Farage, a candidate for the UKUK. Independence Party, is determined to visit every single pub in his Buckinghamshire parliamentary constituency before Britain's general election on May 6. By his own reckoning there are well over 100 in the area.

Until a few weeks ago, candidates like Mr. Farage, whose party's main purposed is to see the U.K. withdraw from the European Union, were expected to benefit from the fallout of the expenses scandal, which exposed violations of the parliamentary expenses system by politicians from Britain's biggest parties. Then came Britain's first televised election debate and Nick Clegg, the fresh-faced leader of the U.K.'s third party, the Liberal Democrats, stole their thunder as the anti-establishment choice.

Now as he tours the pubs of this affluent, mainly rural constituency Mr. Farage, like candidates from other smaller parties such as the Green Party and the far-right British National Party, is having to fight harder to win votes.

Pubs are important, Mr. Farage says, because they are the place to meet "real people," rather than the "out-of-touch Westminster types"

who dominate politics. His main opponent in Buckinghamshire is the incumbent Conservative John Bercow, currently the Speaker of the House of Commons—an MP who remains non-partisan and presides over debates in the House. In what Mr. Farage calls a "ludicrous modern convention", the three main parties agreed not to oppose the speaker in the general vote.

In elections for the European Parliament in June, the UKIP rode the wave of anti-Westminster sentiment, achieving second place and pushing the governing Labour party into third nationally. The BNP also capitalized, gaining two MEPs with more than 6% of the vote, and the Green Party boosted its support with nearly 9%.

Bob Bailey, a BNP candidate and the party's London organizer, isn't banking on a repeat performance in the general election. "Clegg's somehow managed to take on the protest vote that should belong to the BNP," he says. "I've spoken to a lot of people who say they will vote BNP for the council and Lib Dem in the general election. The vote's going to be all over the place."

Mr. Bailey, who is a local councillor in Barking, east London, where BNP leader Nick Griffin hopes to win the party's first Westminster seat,



Nigel Farage, a UKIP candidate.

objects to the Liberal Democrats casting themselves as the anti-establishment party. He claims the expenses scandal showed politicians from all the main parties were "no better than thieves."

The BNP suffered a further setback Wednesday when the head of

the party's online operation, Simon Bennett, resigned. Mr. Bennett yesterday redirected traffic to his personal website, which accused the party leadership of being "pathetic, desperate, and incompetent."

Traditionally, minor parties have enjoyed greater success in European elections, where MEPs for each party are assigned according to a national share of the vote, and struggled in domestic general elections, in which MPs are directly elected to represent a constituency.

Philip Cowley, Professor of Parliamentary Government at the University of Nottingham, says this "first past the post" system makes general elections an uphill struggle for small parties. "The electoral system is just so harsh and unforgiving to minor parties that they will all have realized that their chances of a breakthrough were pretty minor—even UKIP, who did so well in the Euros, know from experience that their vote share drops when it's not a European election," he says.

So far it looks as though the Liberal Democrats were the ones to capitalize on the fallout from the expenses scandal: "The scandal played more of a role in the Lib Dem surge," Mr. Cowley says. "That's about people being fed up with the two existing parties and seeing an

alternative." Among the smaller parties, the Green Party has the best chance of a breakthrough, with leader Caroline Lucas favored to win the Brighton Pavilion seat.

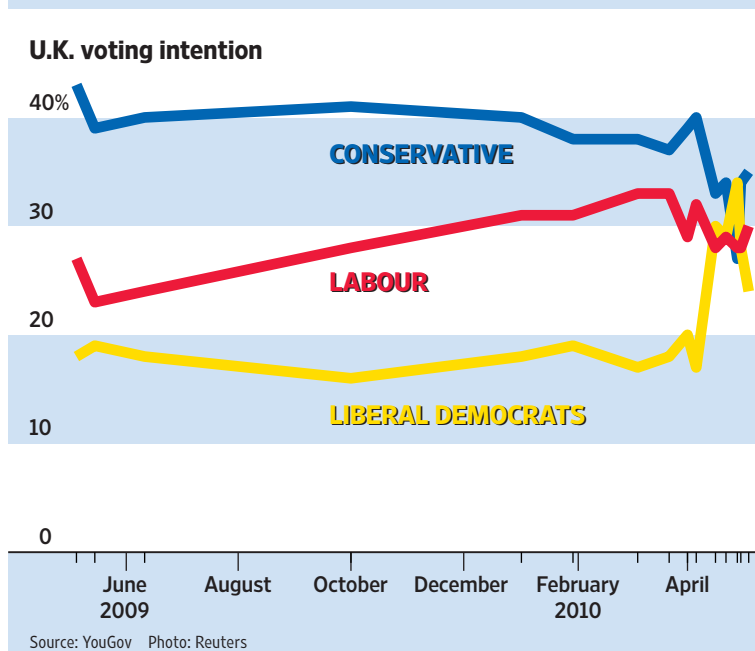
The Greens, however, say their success in Brighton is due to more than just the expenses scandal. "I think this had a lot less to do with the expenses scandal and a lot more to do with our million-jobs manifesto—our £44 billion (\$66 billion) investment program for tackling the recession and modernizing the U.K. economy for a low-carbon future," says party spokesman Spencer Fitz-Gibbon.

In Mr. Farage's patch, with the resurgent Lib Dems absent, bookmakers currently see the Conservatives' Mr. Bercow as the favorite, with the UKIP man a long way behind in second place. Mr. Farage, though, insists that, "it's all to play for."

As his tour of watering holes—drinking British ale, naturally—draws to a close, he extols the virtues of the pub as a place where people can talk politics away from the strictures of Westminster's "political correctness." "Every pub is a parliament," he says. Just as well, as come May 7, the only British parliament he finds himself sitting in may be a Buckinghamshire pub.

BRITISH ELECTIONS

The long campaign | The official U.K. campaign over April was preceded by 11 months of game-changing events.



May 8, 2009: Britain's Daily Telegraph publishes the first revelations in its investigation into MPs' expenses.

May 15: The scandal reaches a peak as it emerges a former Labour minister claimed £16,000 for a mortgage that had already been paid.

June 7: Labour polls just 15.7% of the vote in the European election, falling behind the Conservatives and the U.K. Independence Party.

Oct. 23: GDP in the U.K. unexpectedly fell by 0.4% from July to September, keeping the country in recession.

Jan. 6, 2010: Gordon Brown beats back another intraparty bid to oust him.

Jan. 26: Figures show the U.K. economy emerging from its longest-ever recession.

Jan. 29: Former Prime Minister Tony Blair appears before the Chilcot Inquiry into the Iraq war.

March 22: Former Labour ministers are alleged to have offered influence with the government in return for money.

April 1: A judge halts a four-day national strike by rail workers.

April 7: The election campaign gets

under way after Brown asks the queen to dissolve Parliament.

April 15: First TV debate ahead of a general election sees Liberal Democrat leader Nick Clegg leapfrog Labour.

April 22: Second TV debate: Conservative candidate David Cameron improves his performance, according to some polls.

April 28: Mr. Brown gets caught on a microphone referring to a Labour voter as 'bigoted.'

April 29: Third TV debate: the topic of immigration dominates, pictured.

How to deal with a hung Parliament

BY CASSELL BRYAN-LOW

LONDON—As the British go to the ballot box Thursday, the country faces a possible outcome that some voters here have never seen: a so-called hung Parliament in which no party wins a majority of the 650 seats in the House of Commons.

Opinion polls were indicating a close-run race between the three main parties—Labour, Conservatives and Liberal Democrats—with none of them sufficiently in the lead to guarantee a parliamentary majority. Labour leader Gordon Brown would remain prime minister in the event of a hung Parliament, but his grip on power would depend on Liberal Democrat leader Nick Clegg, whose seats will be able to hand a majority to either Labour or the Conservative Party.

Mr. Brown would remain prime minister if the Parliament is hung, even if he has fewer seats or votes than his main rival, the Conservative Party.

Convention then allows Mr. Brown to try to secure support either through a formal coalition or working as a minority government by forming alliances on individual votes. That process could take hours, days or even weeks to play out depending on the outcome of much behind the scenes deal-making. If Mr. Brown is unable to form a government, he would be expected to resign.

If he tries to press forward, confidence in the prime minister would be tested when the House of Commons reconvenes this month and votes on the government's legislative program. The opposition can also call a vote of confidence.

If the prime minister resigns in the wake of the election results, the queen has a formal role of appointing his successor. In practice, however, "she has no discretion because the test is who can command confidence in the new House of Commons," says Robert Hazell, professor of government and the constitution

at University College London. "It doesn't need to be an overall majority, it just needs to be a bigger group than anyone else," he adds.

That would likely be David Cameron, whose Conservative Party currently is leading in voter polls.

While many parliamentary democracies such as Germany and elsewhere in Western Europe are used to having a hung parliament, it is uncommon in the U.K.

Mr. Cameron will likely try to position his party as the victors if it wins the most number of seats, even without a majority.

But in theory, it could also be another member of the Labour Party if, for instance, that person could form an alliance with the Liberal

Democrats where Mr. Brown couldn't.

While a hung Parliament would likely be a major boost for the Liberal Democrats, the third-largest party, it isn't yet completely clear how it would spend its political capital. Leader Nick Clegg hasn't, however, spelled out the circumstances under which he would be willing to work with either party beyond saying he would want support for his main policies, which include banking and electoral reform.

But if the Conservatives only narrowly miss winning a majority of seats, Mr. Cameron might be able to form a government without the Liberal Democrats by securing the support of right-leaning members of Parliament from Northern Ireland.

The last time a hung Parliament occurred was in 1974 when Conservative Prime Minister Edward Heath remained in government for four days, despite having won fewer seats than Labour, trying to secure a majority.

But he failed to win the support of the Liberal Party and resigned. Labour leader Harold Wilson then formed a minority government, which lasted seven months before he called another election and lost.

As of mid-April, when the current Parliament was dissolved prior to the elections, the Labour Party held 345 seats, the Conservatives had 193 seats and the Liberal Democrats had 63. For a majority, a party would effectively need to win 326 seats.

While many parliamentary democracies such as Germany and elsewhere in Western Europe are used to having a hung parliament, it is uncommon in the U.K., where the country's electoral system tends to exaggerate the majority of the winning party and therefore create a clear winner.

One thing is clear: voters will likely have to wait at least several days before knowing the outcome of a hung Parliament as the political-party jockeying plays out.

U.K. businesses press for focus on skills

BY NATASHA BRERETON

LONDON—British businesses have expressed concern that, despite a frantic month on the campaign trail, the major political parties have given little indication of how they intend to keep Britain competitive internationally.

The U.K. has for many years been among the world's top attractors of foreign investment, but was hit hard during the financial and economic crisis. Foreign direct investment halved in 2009 from a year earlier, according to data from the United Nations Conference on Trade and Development.

The U.K. and other industrialized nations face a struggle as developing economies outgrow their reputation for being principally centers for low-cost production.

"The emerging markets are now able to do everything, and are in fact surpassing us in some of their innovation and so on. That makes the competition for U.K. businesses in particular even more severe," Institute of Directors Director-General

Miles Templeman said.

Boosting medium- and long-term competitiveness, which requires a big improvement in education and skills, should be a key electoral issue, but hasn't really been addressed at all, he said. "Quite frankly, the degree of business orientation in most of the policies has not been very strong—not in the sense of really facing up to this international competition," he said.

While the Labour government has invested heavily in education over the 13 years it's been in power, businesses in the U.K. frequently complain that many job seekers lack basic skills. Government data show that in 2009, 70% of British 16-year-olds managed to gain five or more GCSE qualifications of at least a grade C, broadly regarded as a pass, up 4.7 percentage points from a year earlier. But that still meant that 30% of pupils reaching school-leaving age did not achieve this basic benchmark.

"A significant part of the productivity gap with our competitors comes down to our relatively poor

skills base," said Richard Wainer, head of education and skills at the Confederation of British Industry, or CBI, a major business group.

Business representatives welcomed Conservative plans to reduce bureaucratic control over schools, Liberal Democrat promises to give teachers greater freedom in the classroom, and a Labour pledge to provide extra tuition for children who fall behind in literacy and numeracy. But more needs to be done, they said.

Often cited is the need for more and better quality graduates in science, technology, engineering and math—the so-called Stem subjects. To achieve this, not only the supply side but the demand side needs to be addressed, said Michael Kitson, a lecturer at Cambridge University's Judge Business School.

Each of the three main political parties has pledged to increase the number of apprenticeship and university places, while the Liberal Democrats have also promised to increase places on vocational higher-education courses.

"What business in the U.K. really wants to see is much greater focus not on preparing young people for a particular job, but on preparing them better in general for working life," the CBI's Mr. Wainer said.

Political parties defended their policies against the criticisms, stressing their commitment to improving the quality of British education and skills.

Conservative shadow secretary of state for children, schools and families Michael Gove said his party was drawing inspiration from Finland and Singapore for its teacher training policies, and from America and Sweden for its plans to free up new providers to open new schools.

"We're very concerned that England was the only country to fall from above-average to average in the most recent OECD international comparison and that some of the biggest employers in the country have raised concerns about the quality of our schools leavers," Mr. Gove said.

He added that the Conservatives intend to open technical schools

around the country to provide specialist vocational education and to increase the number of apprenticeships.

A Labour spokesman underscored his party's commitment to its target of 75% of young people gaining an advanced apprenticeship or equivalent qualification, or attending university by the age of 30, through guarantees of education and training. They also plan to raise the school leaving age to 18 from 16 by 2015.

"The competitive global economy of the future will see countries compete in high-skill, high-technology markets. We cannot afford to waste the talents of any of our young people," he said.

A Liberal Democrat spokesperson stressed the importance of education for the economy, saying it was one of the party's top priorities.

He noted its pledge to invest an extra £2.5 billion to improve schools and cut class sizes or introduce catch-up classes, and to fund 15,000 additional foundation degrees in its first year in government.

EUROPE'S DEBT CRISIS

Spain's opposing parties cooperate

Prime minister and his rival reach agreement to clean up savings banks to boost confidence, avoid Greek contagion

By JONATHAN HOUSE

MADRID—As wild fires in the financial markets lapped at Spain's door, Prime Minister José Luis Rodríguez Zapatero huddled Wednesday with opposition leader Mariano Rajoy in an effort to stop the turmoil from further hitting the country.

The rival politicians, once reluctant to get together, have been forced into each others' arms as contagion from Greece's debt crisis ripples across Southern Europe. The result from Wednesday's encounter in the Spanish capital was an agreement to clean up shaky savings banks that control half of the country's lending and deposits.

"The objective is to shore up confidence in the economy," the Socialist prime minister told journalists after a three-hour meeting with the leader of the conservative Popular Party.

Mr. Zapatero's minority government in the past was more inclined to seek support from smaller left-leaning or regional parties in the Spanish parliament. But as the economic crisis has deepened, it has been forced increasingly into agreements with Mr. Rajoy's party over austerity measures its traditional allies found unpalatable.

"We are in a critical situation, as shown by the recent fall in [economic] output and by the lack of confidence of markets" toward Spain, Mr. Rajoy said.



Prime Minister José Luis Rodríguez Zapatero, left, Wednesday greets main opposition leader Mariano Rajoy in Madrid.

Fears about Spain's economy were fanned this week after a €110 billion (\$143 billion) bailout package for Greece from the International Monetary Fund and other euro-zone governments, which officials hoped

would act as a firewall against further contagion, failed to convince international investors that Athens wouldn't eventually default on its debts.

Stock and bond prices in Spain, Portugal and other euro-zone countries have since fallen sharply, potentially raising financing costs for companies, households and governments.

"The pressure from the markets might feel unfair, but cannot be ignored," Marco Annunziata, chief economist of UniCredit Group said. "Greece has taught us that unless policy makers managed to get ahead of the markets, even courageous measures can arrive too late to have any effect."

Spain's saving grace is a public-sector debt level that remains one of the lowest in Europe though it is rising fast. The European Commission forecast Spanish debt will stand at 64.9% of gross domestic product at the end of this year, compared to a euro-zone average of 84.7% and Greece's 124.9%.

Mr. Annunziata said Spain's debt level makes "concerns about debt sustainability appear premature...but this, of course, is no guarantee that the crisis will not spiral out of control."

The country has other economic problems, however, that Greece doesn't. It is grappling with the collapse of a decadelong construction

boom that has pushed its economy deep into recession and its public-sector accounts deep into the red.

In its spring economic report Wednesday, the European Commission forecast Spanish gross domestic product will shrink 0.4% in 2010, making it the only large European economy expected to contract this year.

It also forecast only a modest fall in the budget deficit to 9.8% of GDP from 11.2% in 2009, meaning the debt burden is growing rapidly.

Mr. Zapatero and Mr. Rajoy are cooperating, but don't agree on everything. Mr. Rajoy has generally supported the central government's spending-cut measures which include a plan to cut a public-sector wage bill by 1.9% of GDP but has opposed its plan to raise taxes by around 1.4% of GDP.

Analysts say the government's deficit-reduction plans need more detail and that the economic-growth assumptions that underpin them are too optimistic; the government says it will detail new measures in its 2011 budget, due in September.

Mr. Rajoy urged Mr. Zapatero not to wait and urged him to announce new spending cuts immediately. "The example of Greece shows that if you don't act, others will do it for you and force much more difficult decisions," Mr. Rajoy told journalists.

Messrs. Zapatero and Rajoy did

agree Wednesday to push ailing savings banks into mergers with stronger peers by a government deadline of June 30. The agreement is important because many of Spain's unlisted savings banks are controlled by regional governments, which are in turn, controlled by one of Spain's two main parties. They also agreed on the broad outlines of a regulation that among other things would give savings banks a new instrument to raise capital.

On the face of it, Spain's banking system has weathered the crisis relatively well. Just Caja Castilla La Mancha, a small savings bank, has failed. However, an unemployment rate of 20% and more than €300 billion of loans to troubled real-estate developers are weighing heavily on the sector, pushing many institutions to the verge of insolvency, analysts and Spanish authorities say.

"In the short term, the biggest risk is represented by the stability of the banking sector," BNP Paribas analyst Luigi Speranza said.

Mr. Zapatero said that about two-thirds of the country's ailing savings banks are so weakened by the crisis that they will have to merge. Currently more than 30 are in merger talks, but in some of the cases negotiations have drawn out for more than a year because of interference from regional political bosses afraid of losing control of their local financial institutions.

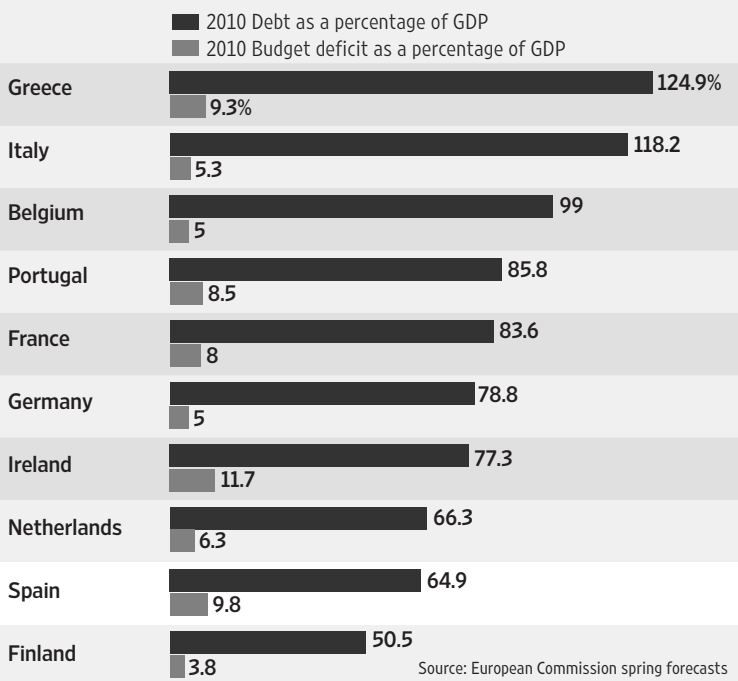
A €9 billion bailout fund created last year by the government and administered by the Bank of Spain to help cover the costs of bank consolidation has yet to act. Expandable to €99 billion, it would offer funds to help strong institutions take over weak ones.

In highly decentralized Spain, cooperation between the Socialists and the Popular Party is becoming increasingly important. In terms of fiscal policy, for example, Spain's central government—excluding the state's pensions administration—directly controls less than a third of public-sector spending, and can set only broad guidelines for the regional and municipal governments that control the rest. Throughout most of the country, the different levels of government are controlled by one of the main two parties.

In March, Finance Minister Elena Salgado brokered an agreement with regional finance chiefs that committed them to reduce their structural budget deficit of €5 billion, or 0.5% of GDP, by the year 2013 as well as to stricter budget-control mechanisms. Regional representatives of the Popular Party didn't support the measure but agreed to not to vote against it.

Safe for now

Spain's public-sector debt level is comparatively low but rising fast thanks to wide budget deficits



Madrid pressures savings banks to merge

By CHRISTOPHER BJORK

MADRID—Spanish savings banks are under pressure to wrap up pending mergers amid fears that the government-debt problems engulfing Greece could spread to Spain.

At a meeting Wednesday between Spanish Prime Minister José Luis Rodríguez Zapatero and opposition leader Mariano Rajoy, these unlisted savings banks known as "cajas" were given a deadline: All those

that need state funds to clean up their balance sheets must ask for money before the end of June.

Merger talks between the cajas have gone at a snail's pace in recent months, despite repeated warnings from the Bank of Spain that time is running out.

Spain is facing a burgeoning credit crunch as a result of the wobbly situation at some of the country's 44 savings banks. That is adding to the pressure on an economy

that is grappling with 20% unemployment and a still-deflating housing market.

A messy restructuring process could put increased pressure on Spain's already considerable funding needs. The government has raised about one-third of the €97 billion (\$126.14 billion) of debt it plans to issue this year. Investors have become warier of highly indebted euro nations given Greece's problems.

Estimates of how much extra

money will be needed to prop up the savings banks vary from €17 billion, by the International Monetary Fund, to €43 billion, by Morgan Stanley.

The government created a bailout fund last year to help cover the costs of consolidation. Administered by the Bank of Spain, the fund has initial capital of €9 billion, expandable to €99 billion, that it can offer to help strong institutions take over weak ones.

Mr. Rajoy said the main political

parties will push through new legislation for savings banks in the next three months that would allow them to tap equity markets by selling voting shares.

Under current law, Spain's savings banks can only sell nonvoting shares, a product for which investors have shown no appetite. As a result, savings banks have suffered during the economic downturn because they lack the ability to recapitalize by issuing new capital.

EUROPE'S DEBT CRISIS

Banks' credit lines to Greece stay open

German and French banks, facing rising political heat in Europe over their role in the financial crisis, have agreed to contribute to the euro zone's efforts to bail out Greece.

By Laura Stevens in Berlin and David Gauthier-Villars in Paris

French Finance Minister Christine Lagarde said Wednesday that France's leading banks had committed to keep lending to Greece, in order to support the €110 billion (\$143 billion) bailout of Greece by euro-zone governments and the International Monetary Fund.

The announcement came a day after German banks agreed to support the Greek bailout plan, partly by keeping credit lines to Greek banks open and by continuing to lend to the Greek state when existing debts mature.

French banks' pledges to keep lending to Greece are 'something that French banks are doing voluntarily,' Christine Lagarde said

However, banks haven't said how much money they will stake on Greece remaining solvent. Analysts said the German declaration was mainly political in nature, and that French banks were merely protecting their large existing credits to Greek borrowers.

French banks hold about \$75 billion in public and private-sector Greek debt, according to the Bank for International Settlements. German banks then have the second-highest exposure to Greek borrowers, about \$45 billion, according to the BIS.

Among banks which would face heavy write-downs if Greece defaults are Germany's **Hypo Real Estate Holding AG**, which owns about €7.9 billion in Greek government bonds, and another €2 billion in exposure to other Greek borrowers. **Commerzbank AG** holds about €4.6 billion in Greek government bonds, according to Germany's banking reg-

ulator. Commerzbank said its exposure is lower, at €3.1 billion.

France's **Société Générale SA** says it holds about €3 billion in Greek government debt directly. Analysts note that the BIS figure for French banks's exposure also includes the loan books of Greek banks owned by Société Générale and **Credit Agricole SA**. Both banks said they would keep lending to Greece.

Germany's parliament is expected to approve legislation on Friday that will allow Europe's biggest economy to lend Greece up to €22.4 billion over the next three years, as part of the IMF-EU bailout.

Many German lawmakers and voters say Chancellor Angela Merkel should have done more to make commercial banks carry the risks of the bailout, rather than leave most of the burden on taxpayers.

Ms. Merkel's government has been pushing German banks since last week to help out in some way in order to assuage public anger about banks, which Germans widely believe have profited from speculating against struggling euro-zone countries such as Greece and Spain.

German banks are pledging support for Greece "so that the politicians can save face and claim that, yes, the banks have contributed," said Manfred Jäger, an economist at the Institute for the German Economy, a Cologne think tank.

French banks' pledges to keep lending to Greece are "something that French banks are doing voluntarily," Ms. Lagarde said on French television after a meeting with the chief executives of France's main banks. "I didn't beg them," she said, hinting at the banks' vested interest in keeping Greece afloat.

BNP Paribas SA, France's largest bank by market value, said it would replace Greek government debt it presently holds, when that debt comes due. The bank said it would provide details about its exact exposure to Greece on Thursday, when it releases first-quarter earnings.

French rival **Société Générale** said it would also keep buying Greek sovereign debt. But the bank said its Greek subsidiary Geniki Bank was tightening its lending practices in Greece because of the worsening business climate there.

German banks said on Tuesday that they would invest in some of the bonds that state bank KfW plans to issue to finance Germany's part of the IMF-EU rescue package for Greece.

So far, German banks haven't put any numbers on their pledges, only signalling that they would be large.

German Finance Minister Wolfgang Schäuble, speaking after meeting leading German bankers on Tuesday, called the commitments "notable," while **Deutsche Bank AG's** chief executive Josef Ackermann said they would be "considerable."

German media reports suggest the amounts involved could be up to €2 billion—a tiny fraction of Greece's overall borrowing needs.

"It's an important signal, also for calming the markets, when you see that the banks are entering with their own contributions," said Klaus Abberger, an economist at the Ifo Institute, a Munich think tank. "This is an important start. But in my opinion, it doesn't go far enough," he said.



An unidentified relative arrives at a bank that was set on fire during demonstrations in Athens Wednesday.

Strike, fire bring Greece to a halt

Continued from first page
officials said. Panagiotis Papapetrooulos, a police spokesman, said eight fires in Athens office buildings and bank buildings had been brought under control.

Greece's government, facing spiraling borrowing costs and a debt payment this month that it can't meet, is scrambling to pass through legislation implementing a three-year austerity and reform program it agreed to as part of the loan deal with the EU and IMF.

Under terms of the bailout deal, Greece's government has announced a €30 billion package of measures that will slash public-sector wages, cut pensions, freeze public- and private-sector pay, liberalize Greece's labor laws and raise some taxes.

The proposals met with stiff resistance Wednesday. Protesters and police clashed in front of parliament and fought running street battles at various points around the city. Demonstrators set fire to a Turkish television crew's van and burned two private vehicles and a fire truck.

Later in the day, on one of Athens' main shopping streets, black smoke billowed from various fires, while glass shards and smoldering garbage littered the sidewalks.

Mr. Papandreou said he will call a meeting of the heads of all the opposition political parties to discuss the violence and the austerity measures. Some officials saw a broader shift

behind the protests, with one senior official saying "we may have an uprising in the making." Tens of thousands of ordinary Greeks turned out to express their disenchantment with the current and previous Greek governments, whose corruption and accounting legerdemain they see as spurring the current budget crisis.

"Greece won't be fixed until all the crooks are removed from gov-

Mr. Papandreou said he will call a meeting of the heads of all the opposition political parties to discuss the violence and the austerity measures.

ernment," said Artemis Batzak Panayou, a cleaning lady working for a local government. Her €1,200 monthly salary, on which she supports three children, was cut by €250 at the beginning of the year and she thinks it will fall further still. "There is no way to survive on the daily wages in the public sector."

In Berlin on Wednesday, Chancellor Angela Merkel called on parliament to approve Germany's contribution of €22.4 billion in loans to Greece. German public opinion opposes a Greek bailout but Ms.

Merkel said it was essential. "Europe stands at a crossroad," she said. "With us, with Germany, there can and will be a decision which lives up to the political, historical situation."

In the northern city of Thessaloniki, there were reports of violence as police clashed with demonstrators who were attacking shop fronts amid a rally that drew at least 20,000 protesters to the streets.

Police officials said the number of protesters in Athens was 20,000. But union officials said that union-affiliated protestors alone totaled more than 60,000. Others put the number of participants higher still.

"This rally was double the size of the largest rally that has ever been held in Greece," said Spyros Paspaspyros, president of Adedy, a civil-service umbrella union. "If the government doesn't listen, there will be more strike action next week."

Wednesday's general strike hobbled government services across Greece, shutting ministries and public offices. State hospitals and public utilities were operating with skeleton staff. Shopkeepers joined the strike at midday, while journalists, bank workers, teachers, court workers, lawyers and doctors also walked off the job. All flights in and out of Greek airports were canceled, while rail and ferry operations were suspended.

—Costas Paris and Nick Skrekas contributed to this article.

Asian investors fret over Europe debt

By ALEX FRANGOS

HONG KONG—Jitters over Europe's growing debt problems are adding to Asia's stock-market malaise, as investors wonder whether the region's recovery has peaked.

Asia's stocks were mostly lower Wednesday on the back of a selloff in U.S. and European stocks Tuesday, adding to losses so far this year in markets in and around China.

Hong Kong's Hang Seng Index fell 2.1% to 20327.54 and is now down 7.1% since the start of the year. Mainland China's benchmark Shanghai Composite, which rose 0.8%, is off 13% in 2010. India's Sensitive Index was down 0.3% Wednesday and has lost 2.2% for the year.

Japan and South Korea, closed for holidays Wednesday, are among the few exceptions in Asia's markets this year, up 4.9% and 2.1%, respectively.

Asia's stock performance contrasts with its economic growth. China's economy expanded 11.9% in the first quarter from a year earlier, and its bank lending in 2009 drove the region's recovery.

Duncan Wooldridge, chief Asia economist at UBS in Hong Kong, believes Europe's woes won't hurt Asia directly unless there is an actual default. But the uncertainty has an impact. "It's not helpful, that's for sure," he says.

The weak euro is already making Asian goods more expensive in Eu-

rope.

For now, a bigger concern is that growth will slow as policy makers tighten the monetary screws. China restricted bank activity for the third time this year on Sunday by raising the percentage of deposits banks must hold against their loans.

At the same time, signs are showing that the recovery in Asia is beginning to pull back from its roaring postcrisis bounce.

"What you are seeing now is leading indicators are confirming you are going to end up with a slowdown in the second half of the year," Mr. Wooldridge says. He calls it a "midcycle correction in growth," not a "deterioration that ends in recession."

High stakes

French and German banks have agreed this week to keep buying Greek sovereign debt. Details of individual bank's exposure to Greece:

France:

Société Générale

 €3 billion
 Crédit Agricole

 0.85

Germany:

Hypo Real Estate

 7.9
 Commerzbank

 3.1
 Deutsche Postbank

 1.3

Source: Dow Jones Newswires research

EUROPE NEWS

France refuses extradition

Businessman U.S. accused of supplying goods to firms in Iran's nuclear program is freed

By DAVID GAUTHIER-VILLARS

PARIS—A French court Wednesday ruled against extraditing an Iranian businessman to the U.S., where he is wanted for allegedly violating American trade sanctions against Iran.

U.S. prosecutors allege Majid Kakavand ran a Malaysian trading firm through which he supplied sensitive products to Iranian companies involved in Iran's nuclear program. Mr. Kakavand bought goods in the U.S. and shipped them to Iran via Malaysia, U.S. prosecutors say.

But the Paris court said it wouldn't hand Mr. Kakavand to U.S. authorities because "the exports themselves do not amount to a crime punishable under French laws."

"Thank you for being fair," Mr. Kakavand told French judges as he recovered his passport and was released. Mr. Kakavand, who had been arrested on a U.S. warrant in March 2009 upon landing in Paris for vacation, said the U.S. allegations were "baseless."

The U.S. Department of Justice said in a statement that it was "deeply disappointed" by the French ruling but added that it would pursue efforts to apprehend Mr. Kakavand. Lawyers for the businessman said they would now work on convincing U.S. prosecutors that the entire indictment against Mr. Kakavand should be dismissed.

The U.S., France and other nations, accuse Iran of developing nuclear weapons. Iran says that its nuclear program is for peaceful purposes.



Majid Kakavand in Paris in February. A French court released him Wednesday after denying extradition to the U.S.

Mr. Kakavand's case underscores persistent differences among the various sanctions targeting Iran.

While the U.S. government has banned all trade and financial transactions with Iran since 1995, France and other European Union members still trade with Iran.

Sanctions imposed by EU countries, like those adopted by the United Nations, center on banning exports to Iran of weapons and of goods that can be used in weapons manufacturing.

U.S. prosecutors allege that Mr. Kakavand violated EU sanctions because his trading firm, **Evertop Services**, shipped goods to Iran that were used by two weapons makers.

But during court hearings, French judges were handed a report by France's military equipment procurement agency **DGA**, which found that the parts exported to Iran by Mr. Kakavand—capacitors, sensors and measurement systems—weren't of sensitive nature.

French judges also said that

parts were shipped to Iran between 2006 and 2008, before the two Iranian weapons makers were added onto an EU blacklist.

After his arrest, Mr. Kakavand remained in custody for five months. In August 2009, he was placed on house arrest after posting a €200,000 (\$256,430) bail.

Mr. Kakavand said Wednesday that he intended to return to Iran as soon as possible.

—Evan Perez
contributed to this article.

New EU push for clearing derivatives

By MATTHEW DALTON

BRUSSELS—The European Commission wants to require most trading in currency derivatives to be routed through clearinghouses, despite the relative resilience of this market during the financial crisis, according to a document from the European Union's executive branch.

Clearinghouses are at the heart of the EU's plans to reduce risk in the derivatives markets. They are entities that stand between buyers and sellers and absorb losses if either side defaults, minimizing the risk that the failure of a single large derivatives trader could cause a meltdown.

The market for credit derivatives threatened the financial system after **American International Group Inc.**, a major participant in the market, nearly collapsed in September 2008. The foreign-exchange derivatives market—with about \$49 trillion in contracts outstanding, according to the latest data from the Bank for International Settlements—meanwhile, functioned well and didn't appear threatened despite instability in the credit-derivatives market.

The market for credit derivatives threatened the financial system after **AIG** nearly collapsed in 2008.

However, that stability may be illusory, the commission document says, given that governments across the world provided assistance and guarantees to their banks to prevent them from collapsing. "The fact that the foreign-exchange market performed well has less to do with the inherent virtues of that market segment per se and more with those guarantees," the document says. "In addition, while the foreign-exchange market may have performed well during this crisis, this does not guarantee that it will perform well next time around."

Liquidity in the foreign-exchange market did in fact become a problem in the second half of 2008, as traders grew increasingly concerned about the soundness of their trading partners while the crisis escalated, the commission says.

The document suggests, however, that not all currency derivatives trades would need to be cleared, only those trades that pose potentially systemic risks. Michel Barnier, the top commission official in charge of financial regulation, said this week that nonfinancial firms that don't pose systemic risks deserve some exemptions.

Yet, excluding all foreign-exchange derivatives could encourage arbitrage, with market participants purposely restructuring interest-rate derivatives as currency derivatives to avoid regulation, the commission document cautions.

Officials from EU national governments will discuss the document at a meeting later this month. The commission is aiming to propose legislation on derivatives in July.

Even then, the commission's proposals will still take a while to become law. The European Parliament and the EU national governments at the European Council will have to approve the legislation before it can take effect.

Ash closes U.K. and Irish airspace

Volcanic ash drifting south from an Icelandic volcano is expected to cause a third day of disruption Thursday, after forcing the closure of airspace over parts of the U.K. and Ireland for the previous two days.

By Daniel Michaels,
Doug Cameron
And Steve McGrath

British aviation officials cautioned that although the busiest hubs in southeast England weren't affected, latest information from the U.K. Met Office shows that the ash cloud continues to move south and change shape. But U.K. air-traffic authority NATS Wednesday signaled that it appeared most of England

would escape the worst effects.

"Most of Wales, England and eastern Scotland are now outside the high-density area," NATS said, adding that the cloud is expected to move southwesterly overnight, necessitating fewer restrictions Thursday.

Edinburgh Airport, which had been closed earlier Wednesday, was to become available for operations Wednesday evening, NATS said. However, it said other airports that had been closed would remain within the no-fly zone until early Thursday.

The U.K. Civil Aviation Authority said it closed Belfast and Edinburgh airports in addition to other Scottish airports including Glasgow and Prestwick.

It had earlier warned that airports in North West England could also be affected, including Liverpool and Manchester.

Computer models of the plume provided by the Volcanic Ash Advisory Centre in London showed the cloud spreading south to cover Ireland and the western half of the U.K. by Wednesday evening, including areas deemed to exceed engine manufacturers' "tolerance levels."

However the Irish Aviation Authority said it expects airport restrictions to be lifted over Ireland early Thursday. It said the volcano had been expelling denser, coarser ash higher into the atmosphere since Tuesday afternoon.

The IAA had closed all airports



Ash rises from a volcano at Iceland's Eyjafjallajökull glacier on Wednesday.

Wednesday with the exception of Shannon, Cork and Kerry, which were also expected to be hit by restrictions Wednesday evening and early Thursday.

Eurocontrol, the agency that oversees air-traffic control in the region, said about 300 flights were expected to be canceled Wednesday due to the ash cloud.

Regulators are still wrestling with how best to monitor and assess future threats from the Icelandic volcano after airlines criticized a wholesale shutdown of much of Europe's airspace last month that is

estimated to have cost the industry as much as \$2 billion.

Airlines announced preventive cancellations ahead of the latest closures. **EasyJet PLC**, **Ryanair Holdings PLC** and **Aer Lingus PLC** canceled flights to and from some Irish and Scottish airports, and **Continental Airlines Inc.** grounded its overnight services from the U.S. to Scotland.

Meanwhile, airlines across Europe were also canceling flights to Greece, as air-traffic controllers walked out as part of a general strike by unions.

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U.S. NEWS

Chemicals applied to break up oil

Attack using dispersants launched from sky and under sea; environmental impact unclear

BY JEFFREY BALL

CHALMETTE, La.—The huge oil slick in the Gulf of Mexico still hadn't inundated the shore by Wednesday afternoon, and officials speculated that was partly because it was being pummeled with massive amounts of chemicals designed to break up the oil.

Those fighting the spill are spraying an unprecedented amount of dispersants into the Gulf in an attempt at environmental triage. Though there are questions about the environmental impact of using so much dispersant and using it at the seafloor, experts say, any such impact pales compared with the damage that would occur if the slick made it to the ecologically fragile Gulf Coast with full force.

"Spill response is always a weighing of alternatives. It's not removing the damage. It's which one will reduce the damage," said Kerry St. Pe, director of the Barataria-Terrebonne National Estuary Program and former director of oil-spill response for a region in southern Louisiana.

On Wednesday, BP PLC said it had shut down one of three underwater leaks, though the flow of oil into the sea remained unchanged. Meanwhile, a massive steel-and-concrete box designed to funnel out oil spewing from the seafloor was loaded onto a boat for a journey to the leak site, and officials prepared to try a second burn of oil from the slick.

The thousands of liters of dispersants being used in the Gulf daily are "designed to be fairly low toxicity," said Charlie Henry, a National Oceanic and Atmospheric Administration official working on the spill response.

Dispersants break up oil into tiny particles that then sit in the water, where natural bacteria can attack them. The bacteria steadily reduce the toxicity of the particles.

"The dispersants may well be working," said Doug Helton, a NOAA official tracking the oil slick's path. Along with efforts to stop the leaks and to protect the coastline by laying pipes, known as booms, on the water's surface to keep the oil sick at bay, the dispersants are "a partial solution," he said.

Thousands of barrels of oil have been gushing each day from a pipe connected to the well since a rig leased by BP sank April 22, raising fears of environmental disaster. It had caught fire two days earlier, killing 11 rig workers.

In addition to the dispersants, shifting winds in the Gulf in recent days have helped to keep the spill offshore, bobbing the slick to and fro in the water, giving officials valuable time to prepare and to try to fight the massive spill.

A key step in BP's fight to reduce the estimated 5,000 barrels a day of oil leaking to the surface will advance Thursday, when the company will lower the containment box over one of the leak sites to collect the oil at the source and pipe it onto a tanker. The installation should take about three days, BP said.

Meanwhile, BP and government authorities are using C-130 planes in the sky and remote-controlled robots on the seafloor to spray the oil with dispersants.

They are scouring the globe for large stockpiles of the substance, bringing it in from Saudi Arabia and



A brown pelican found covered in oil on Storm Island in the Gulf is treated in Fort Jackson, La., Tuesday.

Malaysia on 747 cargo planes and from Hawaii on a ship. And they are working with dispersant manufacturers to increase production quickly.

"It's been an interesting couple of days of logistics," said Dave Salt, operations director for Oil Spill Response, a U.K. company that specializes in using dispersants to combat oil spills and who is on the scene in Louisiana to assist in the dispersant campaign.

Given the temperature of the Gulf water, the oil particles should be broken down in a matter of "days to weeks," Mr. Salt said.

Environmentalists are voicing concerns. "There are very explicit trade-offs here," said Regan Nelson, senior oceans advocate for the Natural Resources Defense Council, an environmental advocacy group. "What we don't understand is the impact of that toxic soup on marine organisms that come into contact with it."

The planes spraying dispersants are taking off from an airport in Kiln, Miss. Each is flying multiple dispersant-dropping missions a day, weather permitting, meaning that the spill-response effort is capable of dropping about 225,000 liters of dispersants on the slick every day, Mr. Salt said.

Those quantities significantly outweigh what Mr. Salt said was the biggest use of dispersants before this spill: a 1996 spill from the tanker Sea Empress off the U.K. coast.

That spill leaked roughly 500,000 barrels of oil into the water, and about 630,000 liters of dispersants were used to fight it, he said.

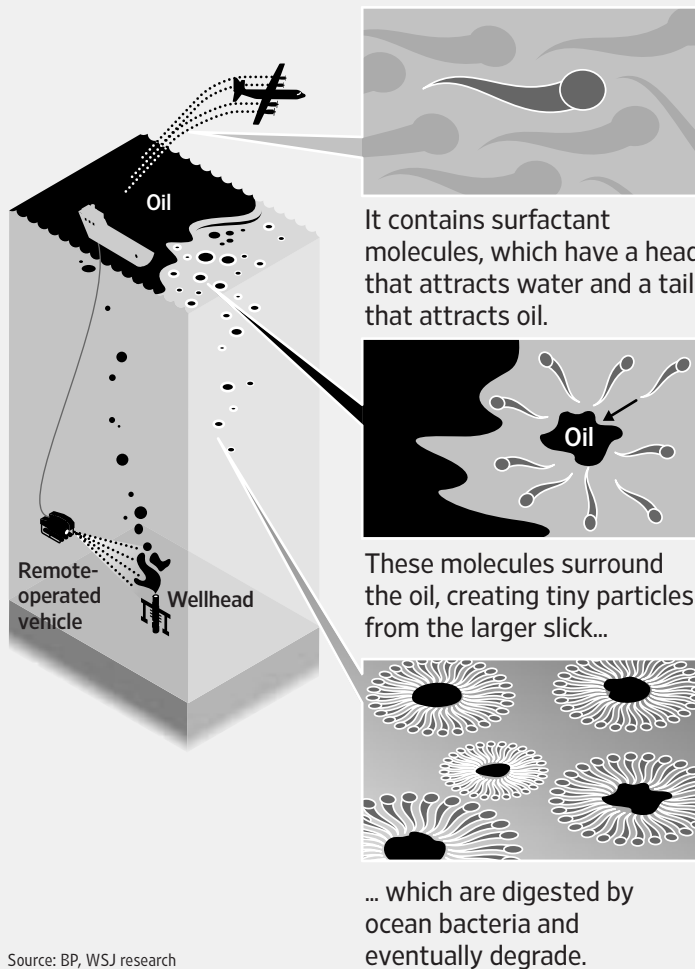
On top of that, in a move that BP officials say hasn't before been tried at these depths, they are injecting dispersants directly into the oil spewing from the leaking well on the seafloor, using robots holding sprayer wands that BP officials liken to those that gardeners attach to backyard hoses.

The idea is to mix the dispersants into the oil as soon as possible, before it rises to the sea surface and forms a slick. Sonar images that BP has taken of the operation on the seafloor suggest the dispersants are succeeding in breaking up the oil,

Divide and conquer

Oil dispersants are being used in the Gulf of Mexico to break apart the oil leaking from the Deepwater Horizon site and hasten natural decay. The dispersants work a little like household laundry detergent:

The dispersant liquid is distributed by plane and by remote-operated vehicles under water.



Bob Fryar, a BP senior vice president, said in a conference call on Sunday. "You could clearly see, before and after, the true difference."

Ms. Nelson, of the environmental group NRDC, said the mixture of dispersants and oil rising from the seafloor to the surface could affect all sorts of sea life that live far from the coastline, from dolphins to turtles to plankton.

Mississippi Gov. Haley Barbour said in an interview that he supported the chemicals' use to fight the massive spill. "I am particularly unconcerned about that which is being used down on the ocean floor, 5,000 feet below the surface," he said. "I think it'll stay down there and do no damage."

—Brian Baskin
contributed to this report.

BP feels heat from Congress, White House

BY NEIL KING JR.
AND GUY CHAZAN

Successful deployment of a concrete-and-steel box designed to pump oil escaping from a damaged well in the Gulf of Mexico to ships on the surface would go a long way toward easing the pressure BP PLC Chief Executive Tony Hayward is encountering from the White House and Congress.

President Barack Obama and other officials have made clear that they intend to hold BP accountable for all cleanup costs from the oil spewing from the site of the sunken Deepwater Horizon rig.

Mr. Hayward met with lawmakers on Capitol Hill Tuesday, advancing the oil giant's campaign to avoid the sort of political backlash that has engulfed companies such as Goldman Sachs Group Inc. and Toyota Motor Corp.

The push on Capitol Hill, arising after a rig leased by BP burned and sank in the Gulf of Mexico last month and the well it was drilling began leaking oil, comes as the company said it hopes as soon as Thursday to lower the first of three containment boxes over the principal underwater leak.

There are risks that BP's effort could backfire, potentially worsening the problem if the massive dome crushed other pipes. A BP spokesman said the dome "will significantly reduce the amount of oil reaching the surface."

Interior Secretary Ken Salazar said Sunday the administration planned to keep "keep the boot on the throat" of BP—a phrase that has since become part of a Democratic fund-raising appeal.

In an interview with the BBC Monday, Mr. Hayward dismissed talk of a rift between BP and the Obama administration, saying an "incredible co-operative relationship" had been established with the federal authorities.

Mr. Hayward's briefings for lawmakers Tuesday followed lengthy consultations with administration officials the day before. It was his third visit to the capital since the Deepwater Horizon rig exploded on April 20 and later sank in 5,000 feet of water, killing 11 workers. "I believe passionately that we will all win this," he told reporters.

Lawmakers had sharp words after his briefings on Capitol Hill. "It was pretty clear here that there was not a proper preparation for the worst-case scenario," said Rep. Ed Markey (D., Mass.).

BP is eager to show that it plans to spend whatever it takes to stop the underwater gusher and clean up the spill.

The London-based company said Tuesday it was spending around \$7 million a day on the effort and that it had wired an initial \$25 million each to the states of Louisiana, Mississippi, Alabama and Florida to help pay for their response.

Mr. Hayward has accepted full responsibility for cleaning up the spill and said BP will honor all legitimate claims for damages, while stressing that it is not to blame for the blast which sank the rig because it was owned and operated by Swiss-based Transocean Ltd. When disasters like this occur, said BP spokesman Andrew Gowers, "corporations can make them worse by appearing dilatory, obfuscatory or legalistic in their response."